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Connecticut Moves to Boost its Presence in the Alternative Market

Officials in Connecticut are hoping to make the state a new force in the captive market by expanding its existing captive law. Connecticut originally passed a captive law in 2008. The law was modeled after Vermont's statute and also provides for the formation of risk retention groups. With its enactment, Connecticut became the 28th state to have a captive law, but, at the time, few resources were allocated to support the law.

In late October 2011, the Connecticut legislature passed an economic development bill that included a measure which updated the state's captive law. "Having a competitive law by which companies could operate was an important component in our efforts to elevate Connecticut's position in the captive market and solidifies our strong position in the industry," said Catherine Smith, commissioner of the **Department of Community and Economic Development**. Besides updating the law's original provision, the amendment provides for a $7,500 tax credit to a captive in the first year that it becomes domiciled in the state.

The reason for the long delay between the state's original captive law and recent initiatives is hard to pin down. Health care reform took center stage in 2008, which may have forced state officials to redirect their attention from the newly enacted captive law. With the appointment of Thomas Leonardi as head of the state's department of insurance in February 2011, establishing a presence in the captive industry once again became a priority. "It was one of his priorities to see what could be done to make the captive market more competitive," said Smith.

In February, Connecticut Governor Daniel P. Malloy included funding for three to four full-time captive positions in his 2012 budget, which also provided an additional 15 regulatory positions. According to a spokesperson from the **Connecticut Department of Insurance**, the new captive division will ideally consist of a program manager, two examiners, and a staff attorney.

Creating a captive insurance unit within the state's department of insurance had been a part of the governor's agenda for 'Reinventing Connecticut'. "Since the governor mentioned captives in his state of the state address, interest has been high," said Thomas F.X. Hodson, president and chief executive officer of **Charter Risk Management Services LLC**. "The goal is to identify markets in Connecticut and neighboring states that can benefit from the use of a captive or other alternative risk vehicle."

Hodson helped to form the **Connecticut Captive Insurance Association** (CCIA) shortly after the 2011 bill was passed. "CCIA's initial role will be to educate legislators about the benefits that captives can bring to the state and inform companies about how captives can help them manage risk," said Hodson. "As the market evolves and new ideas emerge, the association will also act as a regulatory and legislative advocate."

According to Hodson, a considerable amount of interest has been expressed by both companies that are considering re-domesticating their captives and organizations that are just exploring the idea of forming a captive. The cost to maintain an offshore captive, and concerns about the appearance of using an offshore company as a tax vehicle, may be driving some of the interest.

Connecticut's educated workforce and prominence in the insurance industry make the decision to launch the state's captives efforts "a no brainer," according to Hodson, who points to the large number of Connecticut license plates he has observed at a neighboring state's captive conference. "The industry is here but has had to go elsewhere to conduct business in the past."

While the hope is that Connecticut's efforts to stimulate its captive market will generate new job growth on the level of its neighbor to the north, the reality may be something different. However, it could soften the impact of some of the downsizing that has happened in the traditional market as some of those individuals move into the alternative market, and premium taxes that flow into the state could be significant.

"We've picked up the pace of our participation in conferences and want to let the industry know that we're open for business," said Smith.

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